

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN ORDER)	
AUTHORIZING THE ISSUANCE OF)	CASE NO.
SECURITIES AND THE ASSUMPTION)	2007-00233
OF OBLIGATIONS)	

O R D E R

On June 13, 2007, Kentucky Utilities Company (“KU”) filed an application for authority to enter into one or more multi-year revolving credit facilities (“Facilities”) with one or more financial institutions (“Institutions”). The aggregate maximum amount of credit available under all Facilities would not exceed \$35,000,000.

While each draw of funds would be short-term debt, with a term not to exceed 364 days, KU foresees entering into contracts with Institutions of up to 5 years. KU expects market conditions to remain favorable for entrance into multi-year Facilities; hence, it is advantageous for KU to enter into the proposed long-term credit arrangement(s) even though the debt under such arrangement(s) will be short term. This situation would alleviate the time and costs of negotiation and renewal on an annual basis during the term of the credit commitment.

KU would negotiate terms for fees as well as interest rates for funds borrowed. Interest rate options would set rates at some spread in relation to such indices as the Institutions’ prime rate, the Federal Funds Rate or the London Inter-Bank Offered Rate (“LIBOR”), as well as provisions for converting from one interest rate to another. KU believes that rates under a Facility would not exceed 5.8 percent or approximately 40

basis points above current LIBOR, based on current market conditions. KU does expect rates to vary over the 5-year term of the credit commitment. KU also expects it may be required to pay an initial fee to establish the Facility, as well as an ongoing administrative fee to maintain the credit commitment. KU does not believe the initial fee would exceed .05 percent of the Institution's commitment, and the Administrative fee would not exceed .07 percent annually.

KU's variable rate external debt contains provisions whereby liquidity or credit support may be provided by instruments such as the Facilities in question, thus making the external long-term debt more marketable and eliminating the need for bond insurance. It is expected that the Facilities would serve this function and, in such role, funds would not necessarily be drawn. KU contends that it is possible that funds associated with this line of credit could be used to finance the general costs of operation or costs of construction programs, such as Trimble County Unit Two,¹ until permanent or long-term financing can be arranged. Borrowing under the Facilities would be used to meet short-term financing needs as they arise, and KU does not assign specific financing to any particular capital project or use, and does not project finance projects.

KU has not contacted any Institution to discuss proposals as of the date of its application. KU may enter into one or more short-term Credit Facilities, for terms less than one year, not requiring Commission approval. Such short-term Credit Facilities could contain provisions giving the option of extension of the term of the short-term

¹ Case No. 2004-00507, The Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and a Site Compatibility Certificate, for the Expansion of the Trimble County Generating Station, Orders dated November 1, 2005 and November 9, 2005.

Facilities to a multi-year term, in the event that KU received approval necessary to enter into the extension.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed assumption of obligations in connection therewith as set out in KU's application should be approved and that the proposed financing is for lawful objects within the corporate purposes of KU's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to enter into one or more multi-year revolving Credit Facilities with one or more financial institutions in an aggregate amount not to exceed \$35 million, as set forth in its application.
2. KU is authorized to execute, deliver and perform its obligations under the agreements and documents as set out in the application, and to perform the transactions contemplated by such agreements.
3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.
4. KU shall agree only to such terms and prices consistent with this Order.
5. KU shall, within 30 days from the entrance into any multi-year Credit Facility, file with this Commission a statement setting forth the date or dates of implementation of the Credit Facility, or of exercise of any extension option as well as all fees and expenses.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 2nd day of August, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director